

08 - 2417-1

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

Case No. _____

18 U.S.C. § 371
18 U.S.C. § 1343
18 U.S.C. § 2
18 U.S.C. § 982

UNITED STATES OF AMERICA

vs.

MICHAEL LAUER,
MARTIN GARVEY,
ERIC HAUSER,
LAURENCE ISAACSON, and
MILTON BARBAROSH,

Defendants.

INDICTMENT

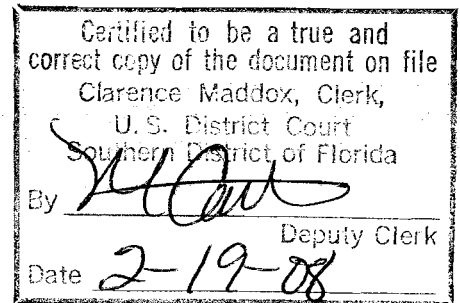
The Grand Jury charges that:

GENERAL ALLEGATIONS

At various times relevant to this Indictment:

The Defendants and Related Persons and Entities

1. Lancer Offshore, Inc. ("Offshore"), Viator Fund, Ltd. ("Viator"), and Orbiter Fund, Ltd. ("Orbiter") were hedge funds incorporated in the British Virgin Islands. In or about April 2002, Viator and Orbiter merged to form Omnifund, Ltd. ("Omnifund"), which was also a hedge fund incorporated in the British Virgin Islands. Lancer Partners, LP ("Lancer Partners"), a Connecticut limited partnership, was also a hedge fund. Offshore, Viator, Orbiter, Omnifund, and Lancer Partners are collectively referred to herein at times as "the Lancer Group hedge funds." Each of the



Lancer Group hedge funds solicited money from investors, pooled the money and purportedly invested it on behalf of its respective investors.

2. Lancer Management Group, LLC was the investment manager for the Orbiter, Viator, Omnifund, and Offshore hedge funds. Lancer Management Group II, LLC was the general partner and management company for the Lancer Partners hedge fund. Lancer Management Group, LLC and Lancer Management Group II, LLC are collectively referred to herein as “the Lancer Management Companies.” The Lancer Management Companies maintained offices in New York and Connecticut.

3. Defendant **MICHAEL LAUER** was the founder and primary manager of each of the Lancer Group hedge funds. **LAUER** directed the day-to-day activities of the Lancer Group hedge funds, including, among other things, choosing the securities in which each fund would invest; issuing separate Private Placement Memoranda (“PPMs”) and other documents which described how each of the Lancer Group hedge funds purportedly would be operated; soliciting money from, and communicating with, investors; and handling redemption requests. **LAUER** owned 80 percent of each of the Lancer Management Companies.

4. Defendant **MARTIN GARVEY** managed the Lancer Group hedge funds with **MICHAEL LAUER**. **GARVEY** owned 10 percent of the Lancer Management Companies.

5. Defendant **ERIC HAUSER** was the head trader for the Lancer Group hedge funds. **HAUSER** owned 10 percent of the Lancer Management Companies.

6. **MICHAEL LAUER**, **MARTIN GARVEY** and **ERIC HAUSER** benefitted from the Lancer Group hedge funds through, among other ways, incentive performance fees and management fees the hedge funds paid to the Lancer Management Companies. The Lancer Group

hedge funds paid the Lancer Management Companies approximately 20 to 25 percent of the hedge funds' respective purported net profits each year as incentive performance fees and approximately one to two percent of the total assets of the funds as management fees. **LAUER** received over \$40 million in cash from the fees.

7. Defendant **LAURENCE ISAACSON** was the president and member of the board of directors of some of the companies in which the Lancer Group hedge funds invested, including Augment Systems, Inc. ("AUGC"), ServiceMax of America, Corp. ("SMXP"), and Nu-D-Zine, Inc. ("NUDZ"). These companies had as their business addresses **ISAACSON**'s office located at 1900 Corporate Blvd., Boca Raton, Florida. Through entities he controlled, **ISAACSON** often received a fee in connection with stock purchases and loans made to these companies by the Lancer Group hedge funds.

8. Defendant **MILTON BARBAROSH** was the president and a director of Stenton Leigh Capital Corporation ("Stenton Leigh"), a Florida corporation located in Boca Raton, Florida, which purportedly appraised companies that were being considered as investments by the Lancer Group hedge funds. **BARBAROSH** also had a financial interest in some of the entities for which he prepared appraisal valuations for the Lancer Group hedge funds, including SMXP and NUDZ.

9. "Consultant C" was, at times, a Managing Director of the Lancer Group hedge funds and an employee of Alpha Omega Group, an entity owned by **MICHAEL LAUER**. Consultant C identified and arranged investments for, and made stock trades on behalf of, the Lancer Group hedge funds. Consultant C often received a fee in connection with stock purchases and loans made by the Lancer Group hedge funds.

10. "Appraiser L" owned and operated a firm that appraised businesses.

11. Shamrock Partners, Inc. ("Shamrock") was a brokerage firm that conducted many of the stock trades on behalf of the Lancer Group hedge funds. Shamrock was owned by a person referred to in this Indictment as "the Shamrock Owner."

12. Capital Research, Inc. ("Capital Research") was an entity owned by **MICHAEL LAUER, MARTIN GARVEY**, Consultant C, and the Shamrock Owner. Capital Research was purportedly created to provide consulting services to small companies and assist the companies in raising funds. Capital Research often received a fee in connection with stock purchases and loans made by the Lancer Group hedge funds.

Investments and Valuation of the Lancer Group Hedge Funds

13. From in or around 1999 through in or around 2003, the Lancer Group hedge funds received more than \$700 million from investors in the funds. The value of an investor's interest in the Lancer Partners hedge fund supposedly was a percentage of the fund's net worth. The value of an investor's interest in the Offshore and Omnifund hedge funds was expressed as a net asset value ("NAV"). **MICHAEL LAUER** communicated the purported performance of the funds to investors through newsletters and other written statements and caused others, including Offshore's administrator, to report the value and performance of the funds.

14. The investors in the Lancer Group hedge funds were not informed as to the particular securities each fund held. Beginning in or about late December 1999, the Lancer Group hedge funds became extensively invested in restricted stock (stock that cannot be sold immediately on the open market) in companies which did not have significant annual revenues or profits and often had no operations. The free-trading stock of these companies was traded on the over-the-counter ("OTC") markets as opposed to the national stock exchanges. The stock was also thinly-traded, meaning that

the stock was not traded in significant volume except for transactions involving the Lancer Group hedge funds.

15. These companies, referred to at times in this Indictment as “shell companies,” included:

a. SMXP, formerly a lawn care company, which had little or no operations and no revenue from 1999 through 2003;

b. NUDZ, formerly a bath, bedding and home furnishing store which had filed for bankruptcy and had no operations from 1999 through its late 2002 merger with its successor, XtraCard Corp., Inc. (“XtraCard”);

c. AUGC, formerly involved in network file server systems and other business, which had suspended operations from 1999 through its late 2002 merger with its successor Biometrics Security Technology, Inc. (“Biometrics”), also known as Biometrics Secure Tech, Inc.; and,

d. Fidelity First Financial Corporation (“FFIRD”), formerly a lender in the subprime mortgage market which effectively had no operations from late 1999 through 2003.

16. In or about November 2002, while advising investors in the Lancer Group hedge funds that the performance and valuation of the funds had increased, **MICHAEL LAUER** began to decline requests from investors seeking “redemptions,” i.e. to redeem in cash their share of the funds.

17. In or about April 2003, Lancer Partners filed for bankruptcy. In or about July 2003, the United States District Court for the Southern District of Florida appointed an individual – known

as a Receiver – to take over the Lancer Group hedge funds with the specific purpose of, among other things, managing their business affairs and safeguarding their assets.

COUNT 1

**Conspiracy to Commit Wire, Mail and Securities Fraud
(18 U.S.C. § 371)**

1. Paragraphs 1 through 17 of the General Allegations section of this Indictment are re-alleged and incorporated by reference as though fully set forth herein.

2. From in or around October 1999 through in or around July 2003, in the Southern District of Florida, and elsewhere, the defendants,

**MICHAEL LAUER,
MARTIN GARVEY,
ERIC HAUSER,
LAURENCE ISAACSON, and
MILTON BARBAROSH,**

did willfully, that is, with the intent to further the objects of the conspiracy, and knowingly combine, conspire, confederate and agree with each other, with Consultant C, and with others known and unknown to the Grand Jury, to commit certain offenses against the United States, that is:

(a) to knowingly and with intent to defraud devise and intend to devise a scheme and artifice to defraud and to obtain money and property by means of materially false and fraudulent pretenses, representations and promises, knowing that they were false and fraudulent when made, and causing to be delivered certain mail matter by the United States Postal Service and any private or commercial interstate carrier, according to the directions thereon, for the purpose of executing the scheme, in violation of Title 18, United States Code, Section 1341;

(b) to knowingly and with intent to defraud devise and intend to devise a scheme and artifice to defraud, and to obtain money and property by means of materially false and fraudulent

pretenses, representations and promises, knowing that they were false and fraudulent when made, and transmitting and causing to be transmitted certain wire communications in interstate and foreign commerce, for the purpose of executing the scheme, in violation of Title 18, United States Code, Section 1343;

(c) to willfully, knowingly, and unlawfully, by use of the means and instrumentalities of interstate commerce, the mails, and the facilities of national securities exchanges, directly and indirectly, use and employ manipulative and deceptive devices and contrivances in connection with the purchase and sale of securities, that is, shares of the Lancer Group hedge funds, and in connection with such transactions, (i) employing devices, schemes, and artifices to defraud holders of shares of the Lancer Group hedge funds; (ii) making untrue statements of material facts and omitting to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and (iii) engaging in acts, practices, and courses of business which operated and would operate as a fraud and deceit upon holders of shares of the Lancer Group hedge funds, in violation of Title 15, United States Code, Sections 78j(b) and 78ff(a) and Title 17, Code of Federal Regulations, Section 240.10b-5.

PURPOSE OF THE CONSPIRACY

3. It was a purpose of the conspiracy for the defendants and their co-conspirators to induce investors to invest in the Lancer Group hedge funds by making materially false representations and concealing and omitting to state material facts in order to unjustly enrich themselves through: (a) payments of incentive performance fees and management fees by fraudulently inflating the value of securities held by the Lancer Group hedge funds and by encouraging new investments and discouraging redemptions; (b) payments of other purported fees,

including "consulting" and "finder's" fees; (c) redemptions by the conspirators of their own personal holdings in the funds; and (d) sales by the conspirators of their own personal holdings of the securities in which the funds invested.

MANNER AND MEANS OF THE CONSPIRACY

The manner and means by which the defendants and their co-conspirators sought to accomplish the objects and purpose of the conspiracy included, among other things, the following:

Falsely Inflated Net Worth and Net Asset Valuations

4. **LAURENCE ISAACSON, MILTON BARBAROSH**, Consultant C, and others known and unknown to the Grand Jury would identify shell companies that **MICHAEL LAUER, MARTIN GARVEY, ISAACSON, BARBAROSH**, Consultant C, and others would cause the Lancer Group hedge funds to take a controlling interest in through the purchase of large amounts of securities issued by the shell companies.

5. **MICHAEL LAUER, MARTIN GARVEY, LAURENCE ISAACSON, MILTON BARBAROSH**, Consultant C, and others known and unknown to the Grand Jury would cause the Lancer Group hedge funds to acquire, sometimes at pennies per share, large amounts of restricted stock of the shell companies.

6. After causing the Lancer Group hedge funds to acquire large amounts of the stock of the shell companies, and at times within a few days of the Lancer Group hedge funds acquiring the large amounts of restricted stock, **MICHAEL LAUER, MARTIN GARVEY, ERIC HAUSER**, Consultant C, and others known and unknown to the Grand Jury would artificially create the appearance of a higher market value for the shell companies' stock at month's end and at year's end by, among other things:

a. directing brokers, including brokers at Shamrock, to place orders to purchase smaller amounts of the shell companies' unrestricted stock at the much higher "open market" price; and

b. directing brokers to place additional smaller orders to purchase the shell companies' unrestricted stock at gradually increasing prices, which would be designed to move the market price of the stock up to a target price by the end of the trading day.

7. **MICHAEL LAUER** would use the fraudulently inflated higher prices of the stock of the shell companies to value all of the stock in the shell companies held by the Lancer Group hedge funds, including the restricted stock which had been acquired for only pennies per share, resulting in grossly inflated valuations and performance of the Lancer Group hedge funds.

8. The falsely inflated values would:

a. generate large incentive performance and management fees for **MICHAEL LAUER, MARTIN GARVEY** and **ERIC HAUSER**;

b. discourage existing investors in the Lancer Group hedge funds from redeeming their holdings in the funds by creating the false appearance that the funds were advancing in performance and that the investors' holdings in the funds were increasing in value; and

c. encourage new investments in the Lancer Group hedge funds.

9. In order to maintain control of the shell companies and to conceal and perpetuate the fraud, **MICHAEL LAUER, MARTIN GARVEY, LAURENCE ISAACSON**, and Consultant C would:

a. install **ISAACSON** and other associates, including the wife of Consultant C, as directors and officers of the shell companies;

- b. cause the Lancer Group hedge funds to make loans to the shell companies;
- c. cause loans and other fund transfers to be made between some of the shell companies; and
- d. cause persons and entities holding other shares of the shell companies to enter into agreements restricting their ability to sell the stock.

False Representations to Investors and Others

10. To induce new investors to invest in the Lancer Group hedge funds, and to maintain existing investors, **MICHAEL LAUER** would make false and misleading representations to investors and others regarding, among other things:

- a. the status of the Lancer Group hedge funds, including the funds' valuation and performance and their holdings;
- b. the professional qualifications and experience of persons associated with the management of the Lancer Group hedge funds; and
- c. the status of audits of the Lancer Group hedge funds.

11. **MICHAEL LAUER, MARTIN GARVEY, ERIC HAUSER, LAURENCE ISAACSON, MILTON BARBAROSH,** and Consultant C would create and cause to be created false documents that were submitted to the auditors of the Lancer Group hedge funds and others containing false and misleading representations about the nature, activities of, and the valuation of, the shell companies.

12. **MICHAEL LAUER** would conceal from and fail to disclose to investors that **LAUER** and the Lancer Group hedge funds effectively controlled shell companies in which the

Lancer Group hedge funds invested, including NUDZ, SMXP, AUGC, and FFIRD, when LAUER had represented to investors that the hedge funds would have no such control.

Fraudulent and Sham Appraisals

13. **MICHAEL LAUER, MARTIN GARVEY, ERIC HAUSER, LAURENCE ISAACSON, MILTON BARBAROSH**, and Consultant C would cause falsely inflated valuations of shell companies to be prepared, including false valuations as of December 31, 2001, valuing holdings in NUDZ at approximately \$139 million; in SMXP at approximately \$145 million; and in AUGC at approximately \$279 million; and false valuations as of December 31, 2002, valuing holdings in FFIRD at approximately \$114 million.

14. In order to avoid the scrutiny of Offshore's auditor and others, **MICHAEL LAUER, LAURENCE ISAACSON**, and **MILTON BARBAROSH** would cause Appraiser L to issue purportedly independent valuations of the shell companies, which were in fact sham valuations prepared by **BARBAROSH** and his associate for Appraiser L's "rubber stamp" signature and which were based on false and misleading information provided by **ISAACSON** and **BARBAROSH**.

Fake Portfolios

15. **MICHAEL LAUER** would provide investors with false information regarding the portfolios of the Lancer Group hedge funds, including fake portfolios and lists he represented to be actual holdings or representative of the holdings in order to allay the investors' concerns regarding the investments in the Lancer Group hedge funds.

16. As a result of the above-described fraudulent scheme, the loss to investors in the Lancer Group hedge funds was in excess of \$200 million.

OVERT ACTS

In furtherance of the conspiracy and to achieve the objects and purpose thereof, at least one of the co-conspirators committed and caused to be committed, in the Southern District of Florida and elsewhere, at least one of the following overt acts, among others:

1. In or around October 1999, **MICHAEL LAUER** caused Offshore to purchase approximately 14 million restricted shares of SMXP at 2 cents per share or a total of approximately \$300,000.

2. In or around October 1999, **MICHAEL LAUER** caused SMXP to enter into an agreement with an entity controlled by **MILTON BARBAROSH**, which owned a significant amount of SMXP shares, to restrict the entity's ability to sell its SMXP holdings.

3. On or around December 20, 1999, **MICHAEL LAUER** caused the Lancer Group hedge funds to purchase approximately 536,000 shares of restricted FFIRD shares at approximately \$1 per share or a total of approximately \$536,000.

4. In or around late December 1999, **MICHAEL LAUER, MARTIN GARVEY, ERIC HAUSER**, and Consultant C effectuated a plan to cause the Lancer Group hedge funds to purchase on the open market additional much smaller amounts of SMXP stock to move up the share price to an artificial price of approximately \$1.25 per share, which **MICHAEL LAUER** used to value the Lancer Group hedge funds' holdings of SMXP at approximately \$20.6 million.

5. In or around late December 1999, **MICHAEL LAUER, MARTIN GARVEY, ERIC HAUSER**, and Consultant C effectuated a plan to cause the Lancer Group hedge funds to purchase on the open market additional much smaller amounts of FFIRD stock to move up the share

price to an artificial price of approximately \$15 per share, which **MICHAEL LAUER** used to value the Lancer Group hedge funds' holdings of FFIRD stock at approximately \$10.3 million.

6. In or around February 2000, **MICHAEL LAUER** caused "Dear Partner" and "Dear Shareholder" letters to be sent to investors in which **LAUER** claimed that the Lancer Partners and Offshore hedge funds had generated an approximate 60% net return in 1999.

7. On or about October 31, 2000, **LAURENCE ISAACSON** caused a fax transmission to be sent from Boca Raton, Florida to Miami, Florida with a copy to **MICHAEL LAUER** in New York, seeking a "lock-up" agreement from a minority shareholder in SMXP not to sell shares of the stock for a restricted period and noting that SMXP is a "pink sheet public shell with no business operations" and that SMXP's majority shareholder, Offshore, had agreed to provide \$2.2 million regarding a merger of SMXP with a private company.

8. On or about December 26, 2000, Consultant C caused a memo to be sent via fax to **MICHAEL LAUER** and **MARTIN GARVEY** describing how they could obtain a controlling interest in NUDZ stock, and describing how they could then move the price of NUDZ stock from pennies per share to over \$1 per share through smaller open market purchases within a few days.

9. On or about December 27, 2000, **MICHAEL LAUER** caused the Lancer Group hedge funds to purchase approximately 15 million shares of NUDZ restricted stock for approximately 1 cent per share or a total of approximately \$150,000.

10. On or about January 2, 2001, **MICHAEL LAUER** caused a "2000 Year-End Update" to be sent to investors touting a purported percentage advance for the hedge funds for the year.

11. On or about January 9, 2001, **MICHAEL LAUER** caused the administrator for Offshore to send letters to investors showing a NAV for the Offshore fund as of December 31, 2000,

at approximately \$840 per each share held by investors in the Offshore fund (a total value for the Offshore fund of about \$709 million), which **LAUER** knew to be artificially inflated as it included, among other things, approximately \$188 million in valuation for SMXP stock which had been obtained for less than \$2.5 million.

12. In or around April 2001, **MICHAEL LAUER** caused the Lancer Partners' auditor to value the securities held in the Lancer Partners fund as of December 31, 2000, at approximately \$227 million, which **LAUER** knew to be artificially inflated as it included, among other things, approximately \$19 million in valuation for SMXP stock, which had been purchased for about \$2.4 million; \$21 million in valuation for FFIRD stock, which had been purchased for about \$2.5 million; and \$19 million in valuation for NUDZ stock, which had been purchased for less than \$1 million.

13. On or about September 27, 2001, Consultant C caused a memo to be sent to **MICHAEL LAUER** and **MARTIN GARVEY** describing, among other things, how small purchases of certain stocks on the open market could be made to move up the price of said stocks to certain goals and listing the "Valuation Benefit" that these stock purchases would generate.

14. On or about January 9, 2002, **MICHAEL LAUER** caused the administrator for Offshore to send letters to investors showing a NAV for the Offshore fund as of December 31, 2001, at approximately \$915 million, which **LAUER** knew to be artificially inflated as it included, among other things, approximately \$138 million in valuation for NUDZ stock; \$133 million in valuation for SMXP stock; and \$120 million in valuation for FFIRD stock, when all of those holdings were for shell companies' securities which had been purchased for about \$15 million.

15. On or about February 19, 2002, **MICHAEL LAUER** caused a "2001 Review and Performance Update" to be sent to investors wherein, among other things, he claimed that the funds'

performance was up over 10% from the start of 2001 through January 31, 2002, and that the holdings were "reasonably close" to their cost basis.

16. On or about April 25, 2002, **MICHEAL LAUER, LAURENCE ISAACSON**, and **MILTON BARBAROSH** caused Appraiser L to sign an appraisal valuing the Lancer Group hedge funds holdings in AUGC/Biometrics stock at \$124,198,350.

17. On or about June 6, 2002, **LAURENCE ISSACSON** caused a fax transmission to be sent from Boca Raton, Florida to Consultant C in New York with a term sheet regarding an investment in AUGC stock which would result in fees being paid to entities associated with **MARTIN GARVEY, ISAACSON**, Consultant C, and the Shamrock Owner.

18. On or about June 18, 2002, **MICHAEL LAUER** caused letters to be sent to Offshore's auditors and others with inflated valuations for ten companies, including NUDZ, SMXP, AUGC and FFIRD.

19. On or about October 21, 2002, **MILTON BARBAROSH** caused a fax transmission to be sent from Boca Raton, Florida to **MICHAEL LAUER** in New York City purporting to value a control position in NUDZ stock at \$3.11 per share as of December 31, 2001, and \$3.78 per share at September 30, 2002.

20. On or about November 11, 2002, **MICHAEL LAUER** caused letters to be sent to investors falsely stating that the Lancer Partners and Offshore hedge funds had risen over the past twelve months as compared to declines in the S&P 500.

21. On or about December 6, 2002, **MICHAEL LAUER** caused letters to be sent to investors falsely stating, among other things, that he believed the portfolio selections were trading at less than half their private market values.

22. On or about January 20, 2003, **MICHAEL LAUER** caused letters to be sent to investors claiming that "our analytical and administrative team is stronger than ever" and opining that a "smear" by a reporter had resulted in higher than usual redemption requests.

23. On or about February 3, 2003, **MICHEAL LAUER, LAURENCE ISAACSON**, and **MILTON BARBAROSH** caused Appraiser L to sign an engagement letter to perform a valuation of Biometrics Secure Technology ("Biometrics," formerly AUGC).

24. In or around February 2003, **MICHAEL LAUER** caused letters to be sent to investors of the Lancer Group hedge funds informing them that he had established limited special purpose vehicles ("LSPVs") to act as liquidating vehicles to which the Lancer Group hedge funds would contribute securities and interests in the Lancer Group hedge funds in lieu of redemptions.

25. In or around March and April 2003, in order to provide funding to Biometrics (formerly AUGC), **LAURENCE ISAACSON** caused funds to be transferred from Xtracard (formerly NUDZ) to Biometrics.

26. On or about April 25, 2003, **MICHEAL LAUER, LAURENCE ISAACSON**, and **MILTON BARBAROSH** caused Appraiser L to sign a purported valuation of AUGC/Biometrics as of December 31, 2002.

27. On or about May 14, 2003, **LAURENCE ISAACSON** caused a Notification of Late Filing of Form 10-QSB for Biometrics to be sent by email from Boca Raton, Florida to the U.S. Securities and Exchange Commission.

28. On or about May 20, 2003, **MILTON BARBAROSH** caused e-mails to be sent from Boca Raton, Florida to **MICHAEL LAUER** in New York City concerning draft valuations of FFRD and Xtracard (formerly NUDZ).

29. On or about June 19, 2003, **MILTON BARBAROSH** caused a fax to be sent to Appraiser L in Broward County, Florida containing an engagement letter signed by **MICHAEL LAUER** concerning Biometrics (formerly AUGC).

30. On or about July 7, 2003, **LAURENCE ISAACSON**, as president of SMXP, caused a memo to be transmitted via fax from Boca Raton, Florida to **MICHAEL LAUER** in New York, requesting a \$25,000 working capital advance so that, among other things, "the market makers may continue to make a market in this stock."

All in violation of Title 18, United States Code, Section 371.

COUNTS 2 - 7
Wire Fraud
(18 U.S.C. §§ 1343 and 2)

1. Paragraphs 1 through 17 of the General Allegations section of this Indictment are re-alleged and incorporated by reference as though fully set forth herein.

2. From in or around October 1999 through in or around July 2003, in the Southern District of Florida, and elsewhere, the defendants,

MICHAEL LAUER,
MARTIN GARVEY,
ERIC HAUSER,
LAURENCE ISAACSON, and
MILTON BARBAROSH,

did knowingly and with intent to defraud, devise, and intend to devise a scheme and artifice to defraud and to obtain money and property by means of materially false and fraudulent pretenses, representations, and promises, knowing that the pretenses, representations, and promises were false and fraudulent when made.

PURPOSE OF THE SCHEME AND ARTIFICE

3. It was a purpose of the scheme and artifice for the defendants and their accomplices to induce investors to invest in the Lancer Group hedge funds by making materially false representations and concealing and omitting to state material facts to unjustly enrich themselves through: (a) payments of incentive performance fees and management fees by fraudulently inflating the value of securities held by the Lancer Group hedge funds and by encouraging new investments and discouraging redemptions; (b) payments of other purported fees, including "consulting" and "finder's" fees; (c) redemptions by the conspirators of their own personal holdings in the funds; and (d) sales by the conspirators of their own personal holdings of the securities in which the funds invested.

SCHEME AND ARTIFICE

4. Paragraphs 4 through 16 of the Manner and Means section of Count 1 of this Indictment are re-alleged and incorporated by reference herein as a description of the scheme and artifice.

USE OF THE WIRES

5. On or about the dates specified as to each count below, the defendants, for the purpose of executing the aforesaid scheme and artifice to defraud and to obtain money and property by means of materially false and fraudulent pretenses, representations, and promises, did knowingly transmit and cause to be transmitted, by means of wire communications in interstate and foreign commerce, certain writings, signs, signals, pictures and sounds, as more particularly described below:

COUNT	APPROX. DATE	DESCRIPTION OF WIRE COMMUNICATIONS
2	January 30, 2003	Message from LAURENCE ISAACSON to MICHAEL LAUER transmitted via fax from Boca Raton, Florida, to New York, New York, requesting, among other things, \$100,000 in funding for Xtracard
3	January 31, 2003	Message from MILTON BARBAROSH to MICHAEL LAUER transmitted via fax from Boca Raton, Florida, to New York, New York, requesting execution of engagement letters for XtraCard and Biometrics and confirming LAUER's discussion with LAURENCE ISAACSON and Consultant C regarding valuation of SMXP, FFIRD and other entities
4	May 20, 2003	Message to MICHAEL LAUER concerning draft valuations transmitted via email from Boca Raton, Florida, to New York, New York, attaching first draft of XtraCard valuation at December 31, 2002 and noting that FFIRD (draft valuations) would be sent later that day
5	June 13, 2003	Message from MILTON BARBAROSH to MICHAEL LAUER transmitted via fax from Boca Raton, Florida, to New York, New York, attaching wiring instructions for payment regarding engagement for two purported valuations
6	June 25, 2003	Purported invoices for payment for phony valuations from MILTON BARBAROSH to MICHAEL LAUER's office transmitted via fax from Boca Raton, Florida, to New York, New York
7	July 7, 2003	Memorandum from LAURENCE ISAACSON as president of SMXP to MICHAEL LAUER transmitted via fax from Boca Raton, Florida, to New York, New York, requesting \$25,000 "working capital advance" to SMXP

In violation of Title 18, United States Code, Sections 1343 and 2.

FORFEITURE
(18 U.S.C. §§ 981(a)(1)(C), 982(a)(2)(A))

1. Paragraphs 1 through 17 of the General Allegations section of this Indictment and paragraphs 4 through 16 of the Manner and Means section of Count 1 of this Indictment are re-alleged and incorporated by reference as though fully set forth herein for the purpose of alleging forfeiture to the United States of property in which one or more of the defendants has an interest pursuant to the provisions of Title 18, United States Code, Sections 982(a)(1) and 981(a)(1)(C), and Title 28, United States Code, Section 2461.

2. Each defendant who is convicted of one or more of Count 1 (Conspiracy) and Counts 2 through 7 (Wire Fraud) of this Indictment shall forfeit to the United States of America, pursuant to Title 18, United States Code, Section 981(a)(1)(C) and 28 U.S.C. Section 2461(c), any property constituting, or derived from, proceeds the defendant obtained, directly or indirectly, as a the result of such violation.

3. Each defendant who is convicted of one or more of Counts 2 through 7 (Wire Fraud) of this Indictment shall forfeit to the United States of America, pursuant to Title 18, United States Code, Section 982(a)(2)(A), any property constituting, or derived from, proceeds the defendant obtained, directly or indirectly, as a the result of such violation.

4. If the property described above being subject to forfeiture as a result of any act or omission of a defendant:

- a. cannot be located upon the exercise of due diligence;
- b. has been transferred or sold to, or deposited with, a third party;
- c. has been placed beyond the jurisdiction of the court;

- d. has been substantially diminished in value; or
- e. has been commingled with other property that cannot be divided without difficulty;

it is the intent of the United States of America, pursuant to Title 21, United States Code, Section 853(p), as incorporated by Title 18, United States Code Section 982(b)(1), to seek forfeiture of properties of the defendant up to the value of the above forfeitable property in United States currency.

All pursuant to Title 18, United States Code, Sections 981 and 982, Title 28, United States Code, Section 2461, and the provisions of Title 21, United States Code, Section 853.

A TRUE BILL

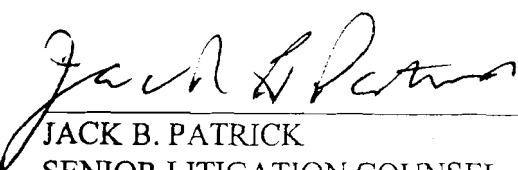
FOREPERSON



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